

WHATCOM COUNTY WATER DISTRICT No. 13
Whatcom County, Washington
January 1, 1992 Through December 31, 1993

Schedule Of Findings

1. The District Should Pursue Settlement Of Bondholder's Suit To Satisfy Debt Requirements

The district has continued to fail to generate revenues sufficient to meet its reserve and debt service requirements. This condition has been previously discussed in prior audit reports.

The district's Bond Resolution No. 21, Section 4, states in part:

. . . The bond fund is hereby divided into two accounts, namely, a principal and interest account and a reserve account . . . the district hereby covenants to set aside and pay into such fund out of the gross revenues of the system, a fixed amount without regard to any fixed proportion, namely: (a) into the principal and interest account . . . an amount which . . . shall in the aggregate equal the interest to become due and payable on the bonds on the next succeeding interest payment date and on or before the first day of May 1988, an amount equal to the principal payable in May 15, 1988, on remaining outstanding bonds.

Further, the district's resolution states:

Into the reserve account, all payments of assessments received in Utility Local Improvement Districts Nos. 1 and 2 during the 30-day cash prepayment period of such assessments and all remaining assessment payments or installments thereon collected until there shall be a total reserve of \$204,000 therein; provided, however, that such reserve amount at an amount not less than the next succeeding two years interest requirements for the bonds

The district has been unable to accumulate the required cash reserve or make the required bond interest and principal payments. This situation is primarily due to the financial difficulties of Peaceful Valley Limited Partnership, and their failure to pay assessments on their property. Peaceful Valley filed for bankruptcy in August 1988, and Whatcom County has foreclosed on a number of their properties.

As of December 31, 1993, the district had failed to accumulate the required \$204,000 into the reserve account. The full amount of the bond principal of \$1.2 million became due as of May 15, 1988, and has not been paid. In addition, the district has not had sufficient cash flow to make regular bond interest payments and interest payments are now delinquent. As a result, several lawsuits have been filed on behalf of the bondholders and the district has filed for bankruptcy. The outcomes of these legal actions are unknown at this time.

We recommend the district pursue settlement of its debt.

2. The District Should Retain All Necessary Records

During 1992 and part of 1993, the district was using manual billing cards to track billings and receipts for individual customers. When a customer required a new billing card, the district would destroy the old one.

RCW 40.14.070 states in part:

. . . Except as otherwise provided by law, no public records shall be destroyed until approved for destruction by the local records committee. Official public records shall not be destroyed unless:

- (1) The records are six or more years old;
- (2) The department of origin of the records has made a satisfactory showing to the state records committee that the retention of the records for a minimum of six years is both unnecessary and uneconomical, particularly where lesser federal retention periods for records generated by the state under federal programs have been established; or
- (3) The originals of public records less than six years old have been copied or reproduced by any photographic, photostatic, microfilm, miniature photographic, or other process approved by the state archivist which accurately reproduces or forms a durable medium for so reproducing the original

District officials indicated the records were unavailable due to district staff's misunderstanding of the use of the cards and the requirements for maintaining records.

The lack of billing and accounts receivable cards prevents the State Auditor's Office and other interested parties from having access to the complete information of the district's financial activities.

We recommend the district continue to ensure all records are safeguarded and retained in accordance with records retention schedules approved by the local records committee. We further recommend the district should ensure these records are available for audit.

3. A Functional Control Account Should Be Used With Utility Billings And Collections

During our audit, we noted the district had implemented a control account for utility billings and receivables. However, we noted the account contained numerous errors and could not be reconciled to supporting documentation for receipts and billings.

The American Institute of Certified Public Accountants' *Audits of State and Local Government Units*, Revised Edition, states in Section 3.13:

Management should understand its responsibilities to implement and maintain adequate internal control systems and should be capable of:

Initiating procedures to detect areas of operation particularly vulnerable to fraud and misuse of assets or circumstances that may adversely affect the reliability of the government's financial statements.

Establishing procedures to monitor and evaluate compliance with internal control systems.

Instituting timely action to correct identified internal control system weaknesses.

The district's management indicated the problems were due to a lack of time allocated to the implementation of the control account.

By failing to maintain a functional control account the district increases the risk errors and/or irregularities may occur in the receipting, recording and depositing of billings and collections and not be detected in a timely manner, if at all.

We recommend the district's management:

- a. Establish a functional control account for all utility accounts receivable. This account would reflect the total amounts billed to and collected from customers each month, any account adjustments and the balance due from all customers.
- b. Periodically reconcile the control account total for utility accounts receivable with the total of all individual customer subsidiary ledger cards to ensure the accuracy of account balances.